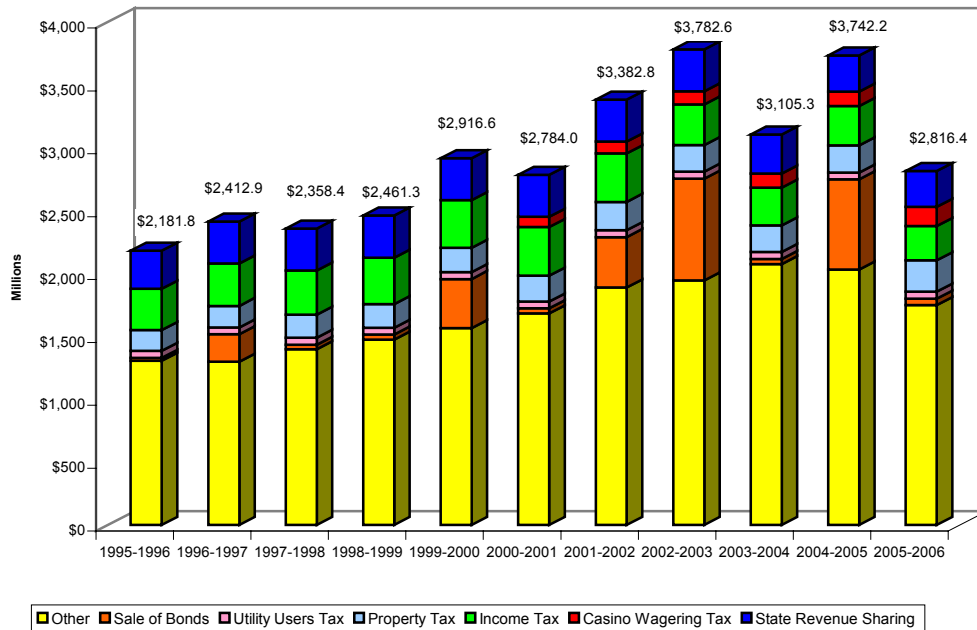


**CITY OF DETROIT  
MAJOR REVENUES  
FOR FISCAL YEAR 1995-1996 THROUGH FISCAL YEAR 2005-2006**

The following chart and schedule illustrate the total budgeted revenues over eleven years, from fiscal year 1995-1996 through fiscal year 2005-2006. The analysis that follows includes a comparison of the revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and bond sales in the Mayor's Proposed Budget.



In Millions

Fiscal Year	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	Total
1995-1996	\$ 165.1	\$ 327.9	\$ 56.3	\$ 303.1	-	\$ 23.6	\$ 1,305.8	\$ 2,181.8
1996-1997	171.2	337.6	54.7	332.3	-	219.3	1,297.8	2,412.9
1997-1998	182.9	351.5	57.4	333.9	-	34.3	1,398.4	2,358.4
1998-1999	188.1	368.0	54.8	335.8	-	39.1	1,475.5	2,461.3
1999-2000	193.5	379.9	54.6	332.0	-	390.0	1,566.6	2,916.6
2000-2001	205.7	387.4	54.6	332.0	\$ 80.7	40.0	1,683.6	2,784.0
2001-2002	225.5	384.8	54.6	332.0	95.8	400.0	1,890.1	3,382.8
2002-2003	211.8	323.5	54.6	332.0	105.0	810.0	1,945.7	3,782.6
2003-2004	212.4	300.4	55.0	310.8	110.0	42.0	2,074.7	3,105.3
2004-2005	213.1	311.0	55.0	287.7	117.6	717.4	2,040.4	3,742.2
2005-2006	249.6	272.6	56.0	285.1	153.0	50.0	1,750.1	2,816.4

## MUNICIPAL INCOME TAX REVENUE

Municipal Income Tax revenue contained in the Mayor's 2005-2006 Proposed Budget is \$43.9 million less than the amount budgeted for fiscal year 2004-2005. The Municipal Income Tax revenue included in the Mayor's 2005-2006 Proposed Budget is compared to the 2004-2005 Budget in the following schedule:

	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Municipal Income Tax	\$ 272.6	\$ 311.0	\$ (38.4)
Prior Years Municipal Income Tax	2.5	8.0	(5.5)
City Income Tax Collections, per Legal Budget	<u>\$ 275.1</u>	<u>\$ 319.0</u>	<u>\$ (43.9)</u>

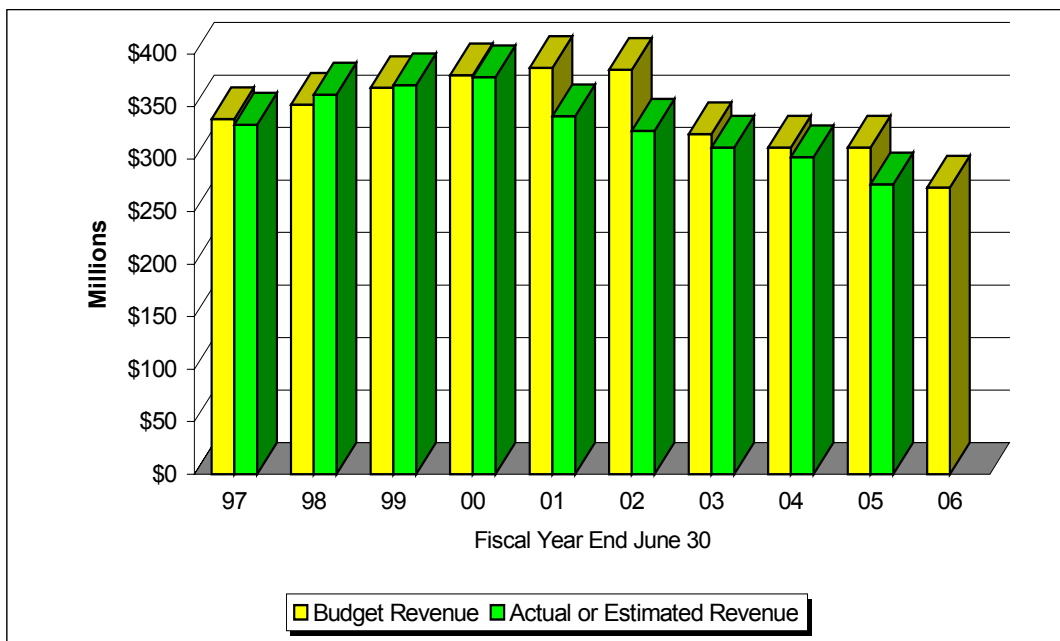
The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 1997 to 2004. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2005, and budgeted Municipal Income Tax revenue as shown in the Mayor's 2005-2006 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1996-1997	\$ 337.6	\$ 332.9	\$ (4.7)	(1.4) %	\$ (2.9)	(0.9) %
1997-1998	351.5	361.6	10.1	2.9	28.7	8.6
1998-1999	368.0	370.4	2.4	0.7	8.8	2.4
1999-2000	379.9	378.3	(1.6)	(0.4)	7.9	2.1
2000-2001	387.4	341.0	(46.4)	(12.0)	(37.3)	(9.8)
2001-2002	384.8	323.5	(61.3)	(15.9)	(17.5)	(5.1)
2002-2003	323.5	310.9	(12.6)	(3.9)	(12.6)	(3.9)
2003-2004	311.1	290.6	(20.5)	(6.6)	(20.3)	(6.5)
2004-2005 (A)	319.0	275.5	(43.5)	(13.6)	(15.1)	(5.2)
2005-2006 (B)	275.1	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for 2004-2005 is a Budget Department estimate based on actual year-to-date Municipal Income Tax revenue as of March 18, 2005, and an adjustment for weekly changes in collections over the last year. It does not include collections of prior year income tax that totaled \$2.4 million by March 2005.

(B) The budgeted amount is the only figure available for fiscal year 2005-2006. The other amounts are designated N/A (Not Available) in the schedule. The budget assumes a 1.3% negative growth rate.

The chart below compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 1996 through 2004 and the budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2004-2005 in the 2005-2006 Mayor's Proposed Budget.



### Income Tax Rates for 2005-2006

For the fiscal year 2005-2006, the income of residents and nonresidents will be taxed at the rate of 2.5% and 1.25%, respectively, while the corporate tax rate will be 1.0%. The tax rates are the same as the prior two years due to the suspension of Public Act 500 of 1998. The Act reduces City income tax rates by one-tenth of a percentage point per year for residents and one-twentieth of a percentage point for non-residents over a ten-year period, until the rates are 2.0% and 1.0% respectively<sup>1</sup>. For fiscal year 2003-2004, the City recorded a deficit of \$95.0 million. The City petitioned the State Administrative Board to suspend the income tax rate reduction because the City's financial condition met all of the fiscal and economic criteria specified in the Act. The criteria and the City's condition are as follows:

- a) *"Funds have been withdrawn from the City's budget stabilization fund for two or more consecutive city fiscal years or there is a balance of zero in the city's budget stabilization fund."* The Chief Financial Officer indicated that the City's Budget Stabilization Fund had a zero balance as of June 30, 2004.
- b) *"The City's income tax revenue growth rate is 95% or less."* Calculations in the letter to the State indicated the income tax growth rates to be 93.68% in fiscal year 2002-2003 and 91.63% in fiscal year 2003-2004.
- c) *"The local tax base growth rate is 80% or less of the statewide tax base growth rate."* Calculations in the letter to the State indicated the City's tax base growth rate to be 54.67% of the growth rate for the state.

<sup>1</sup> Before Public Act 500 of 1998 was enacted into law, the Municipal Income Tax rates were 3.0% for residents, 1.5% for nonresidents, and 2.0% for corporations.

- d) *"The City's unemployment rate is 10% or higher according to the most recent statistics available from the Michigan Jobs Commission."* The letter cites the October 2004 unemployment rate of 12.9% according to the Michigan Department of Career Development – Employment Service Agency – Office of Labor Market information – LAUS Data.

Attempts have been made to quantify the effect of Detroit's income tax rate reduction in terms of foregone revenue. A November 2003 estimate provided by the Citizens Research Council (CRC) of Michigan indicates that each one-tenth of a percentage point reduction in the tax rate results in a reduction in revenue of about \$12.0 million, ignoring any growth in the tax base.

### **Other Factors Influencing Municipal Income Tax Revenue**

In general, the national economy has shown signs of improvement; however, the manufacturing and auto-based sectors of the economy that Michigan is dependent on are still lagging behind other sectors. Increases in overall productivity and energy prices hamper employment growth. The City's unemployment rate has increased from 13.0% in February 2004 to 14.9% in February 2005 (latest data available). The City's unemployment rate is nearly double the State's unemployment rate of 8.0%.

### **Estimated Municipal Income Tax Revenue for Fiscal Year Ending June 30, 2005**

Income tax revenue can be difficult to predict due to various economic factors such as, population changes over time, employment levels, and changes in taxpayer incomes that directly affect the City's income tax revenue.

The Budget Department estimates actual Municipal Income Tax revenue of \$275.5 million for the fiscal year ending June 30, 2005, an amount that is \$35.5 million or 11.4% less than the budgeted amount. The estimate is based on tax collections from the past year. Based on our analysis, the estimated amount appears reasonable.

### **Prior Years Municipal Income Tax**

The 2005-2006 Mayor's Proposed Budget includes revenues of \$2.5 million for the collection of prior year income taxes by an external tax collection service. For fiscal year 2004-2005, \$8.0 million was included for delinquent income tax revenue. As of March 2005, the service has collected \$2.4 million in income tax revenues for fiscal year 2004-2005. From April 2004 through March 2005, the service has collected \$2.7 million. The external tax collection service received records from tax year 2002 and will receive tax year 2003 records during fiscal year 2005-2006. The collection pattern has shown that the newer the account, the more likely revenues can be collected. With newer accounts to collect from, the projected prior year income tax revenue appears reasonable.

### **Conclusion**

The 2005-2006 Mayor's Proposed Budget includes Municipal Income Tax revenue of \$272.6 million, which does not include revenue collected by external services. This is \$38.4 million or 12.4% less than the \$311.0 million included in the FY 2004-2005 budget, and \$2.9 million or 1.1% less than the \$275.5 million estimated collections for the same period. The Budget Department's projection incorporates a 1.3% negative growth rate that was derived from the trend from prior years income tax collections. In addition, the Income Tax Division is proposing a reduction in the exemption amount from \$750 to \$600. The City Council will have to approve the change in the ordinance to change the exemption amount. The Division estimates the change in the exemption amount will increase income tax revenue by \$2.6 million. Based on our analysis of the estimated collections for 2003-2004, the stable income tax rate, and the

growth rate based on prior years' collections, the projected income tax revenue amount of \$272.6 million for fiscal year 2005-2006 appears reasonable.

## STATE REVENUE SHARING

State Revenue Sharing is the process by which a portion of certain tax revenues imposed and collected by the State of Michigan are distributed to local units of government, including municipalities, as provided by State law. Currently, the State shares a portion of sales tax revenue with local governments.

State Revenue Sharing revenues contained in the Mayor's 2005-2006 Proposed Budget are \$2.6 million less than the amount budgeted for 2004-2005. The State Revenue Sharing payments included in the 2005-2006 Mayor's Proposed Budget are compared to the 2004-2005 Budget in the following schedule:

In Millions			
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 67.2	\$ 63.5	\$ 3.7
State Sales Tax – Statutory Portion	217.9	224.2	(6.3)
Total State Revenue Sharing to City of Detroit	\$ 285.1	\$ 287.7	\$ (2.6)
Detroit Public Library	(1.6)	(1.6)	0.0
City's Net State Revenue Sharing (A)	<u>\$ 283.5</u>	<u>\$ 286.1</u>	<u>\$ (2.6)</u>

(A) The City's Net Revenue Sharing includes approximately \$60,000 to be paid to the Downtown Development Authority.

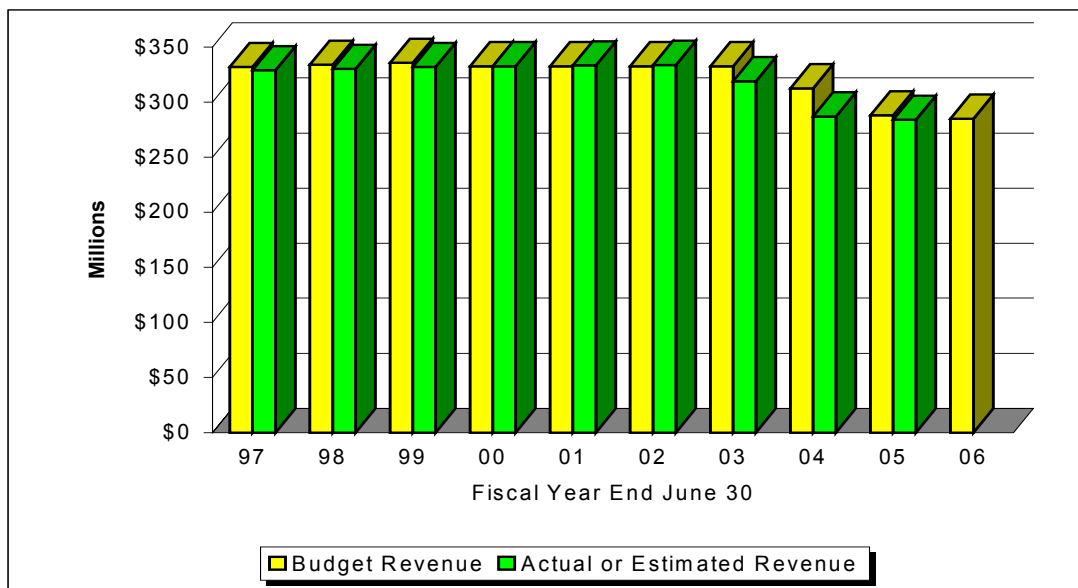
The following schedule compares the City's Net State Revenue Sharing, budget to actual, beginning with the 1996-1997 fiscal year:

Dollars In Millions						
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1996-1997	\$ 332.3	\$ 328.5	\$ (3.8)	(1.1) %	\$ 12.4	3.9 %
1997-1998	333.9	330.1	(3.8)	(1.1)	1.6	0.5
1998-1999	335.8	332.0	(3.8)	(1.1)	1.9	0.6
1999-2000	332.7	332.7	0.0	0.0	0.7	0.2
2000-2001	332.7	333.3	0.6	0.2	0.6	0.2
2001-2002	332.7	333.8	1.1	0.3	0.5	0.2
2002-2003 (B)	332.7	319.1	(13.6)	(4.1)	(14.7)	(4.4)
2003-2004 (B)	311.5	286.5	(25.0)	(8.0)	(32.6)	(10.2)
2004-2005 (C)	286.1	283.5	(2.6)	(0.9)	(3.0)	(1.0)
2005-2006	283.5	N/A	N/A	N/A	N/A	N/A

(B) The large deviations between budget and actual amounts for fiscal years 2002-2003 and 2003-2004 were due to the Governor's two executive orders cutting State Revenue Sharing after the State budget had been enacted.

(C) The 2004-2005 estimated revenues are taken from the Mayor's 2005-2006 Proposed Budget.

The following chart compares budgeted State Revenue Sharing to actual State Revenue Sharing for fiscal years 1996-1997 to 2003-2004, the budgeted State Revenue Sharing to the estimated State Revenue Sharing for 2004-2005, and shows the budgeted State Revenue Sharing in the Mayor's 2005-2006 Proposed Budget.



### State of Michigan Legislation and Projection

Public Act (PA) 532 of 1998 changed the method for determining State Revenue Sharing payment amounts. In accordance with 1998 PA 532, the City of Detroit was to receive a total of \$333.9 million in State Revenue Sharing payments each year, from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine-month period from October 1, 2006 to June 30, 2007.

In December 2002 and again in December 2003, executive orders were issued by the Governor, which slashed State Revenue Sharing payments across the board for the State's 2002-2003 and 2003-2004 fiscal years. In previous years State Revenue Sharing was seen as an assured revenue stream. Since 2002-2003 this has not been the case, although the Governor has proposed leaving State Revenue Sharing flat in the 2005-2006 Executive Budget.

1998 PA 532 also provides that the treasurer of any city, village, township, or county who collects money for an authority that levies property taxes shall pay an eligible authority its share of State revenue. Therefore, the City is required to pay \$1.6 million to the Detroit Public Library and \$59,778 to the Downtown Development Authority (DDA) from the \$285.1 million in State Revenue Sharing for the 2005-2006 State fiscal year. These amounts have decreased slightly from the previous year, proportionate to the overall decrease in State Revenue Sharing payments to the City.

The Governor's 2005-2006 Executive Budget recommends Total State Revenue Sharing payments to Detroit in the amount of \$285.1 million, a \$2.6 million reduction from the \$287.7 million the City budgeted for 2004-2005. The total payment of \$285.1 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) and a portion determined by the Governor and the State legislature (statutory). The constitutional portion of State Revenue Sharing payments for 2004-2005 is based on the 2000 City of Detroit census figure adjusted for the deduction of 50 percent of the institutional population (mostly prisoners) as required in the Revenue Sharing Act.

### City-to-City Comparison of Revenue Sharing Dollars

Since December 2002, when the first cuts were enacted, the dollar amount all Michigan cities are receiving from the State through revenue sharing has dropped. However, one thing that has not changed significantly is the percentage of the State's total revenue sharing dollars the City receives. In fiscal year 2002-2003, Detroit received 22.0% of the State's total revenue sharing dollars. In 2005-2006 it is estimated that Detroit will receive 25.4% of the State's total revenue sharing dollars.

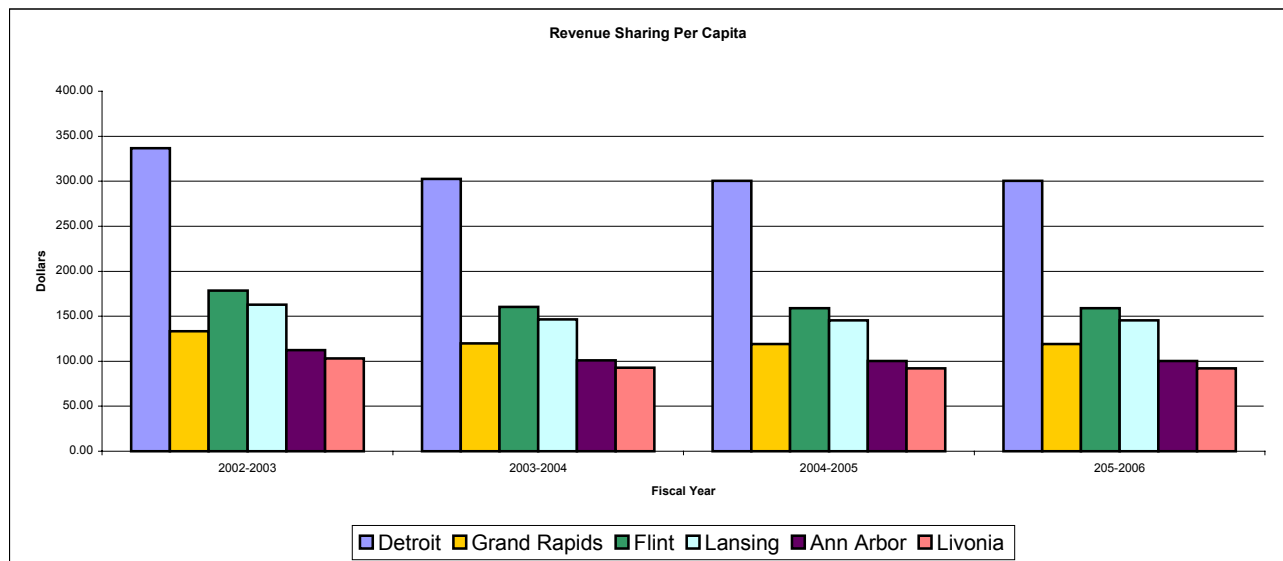
The table below shows the percentage of the State's total revenue sharing dollars received by Detroit, Grand Rapids, Flint, Lansing, Ann Arbor, and Livonia for State of Michigan fiscal years 2002-2003 and 2003-2004 and the estimated percentage of revenue sharing the cities will receive in fiscal years 2004-2005 and 2005-2006. It also shows the percentage of the State's total population residing in each of the cities.

City	Percent of Total Revenue Sharing				% Of State Population Per 2000 Census
	2002-2003	2003-2004	2004-2005	2005-2006	
Detroit	22.0%	22.0%	25.6%	25.4%	9.6%
Grand Rapids	1.8	1.8	2.1	2.1	2.0
Flint	1.5	1.5	1.8	1.8	1.3
Lansing	1.3	1.3	1.5	1.5	1.7
Ann Arbor	0.9	0.9	1.0	1.0	1.2
Livonia	0.7	0.7	0.8	0.8	1.0

On a per capita basis, Detroit received \$352 per resident prior to the reductions in revenue sharing. In 2005-2006, the Governor's Executive Budget calls for Detroit to receive \$300 per resident. Other cities receive much less than this. Flint, the city receiving the closest amount to Detroit, is budgeted to receive \$159 per resident. This is just over half of what Detroit will receive per resident.



The following chart and table show the per capita amount each of the aforementioned cities received in State Revenue Sharing payments for State fiscal years 2002-2003 and 2003-2004 and the estimated amount for State fiscal years 2004-2005 and 2005-2006.



State Revenue Sharing Dollars Per Capita				
City	2002-2003	2003-2004	2004-2005 (Estimated)	2005-2006 (Estimated)
Detroit	\$336.84	\$302.74	\$300.39	\$300.39
Grand Rapids	133.44	119.93	119.00	119.00
Flint	178.34	160.28	159.04	159.04
Lansing	163.02	146.52	145.38	145.38
Ann Arbor	112.38	101.00	100.22	100.22
Livonia	103.12	92.68	91.96	91.96

## Conclusion

In our opinion, the amount estimated in the Mayor's 2005-2006 Proposed Budget for State Revenue Sharing is reasonable, because it corresponds with the amount in the Governor's 2005-2006 Executive Budget. It should be noted that the Governor's Executive Budget has yet to be enacted and is still subject to change. For 2004-2005, the amount Detroit is estimated to receive from the State has been lowered by \$2.6 million due to changes in the State's economy and its expected revenue collections. For 2005-2006, the City is again budgeting what the Governor has proposed.

According to a State of Michigan House Fiscal Agency economist, there are no proposed cuts to State Revenue Sharing. However, the economist cautioned that these cuts are never off the table.

## PROPERTY TAX REVENUE

Property Tax Revenue includes the collection of current taxes on both real property (i.e., real estate) and personal property (e.g., machinery and equipment).

Tax levies, taxable valuations and tax rates (not including the Library) included in the 2005-2006 Mayor's Proposed Budget are compared to the 2004-2005 Budget in the following schedule:

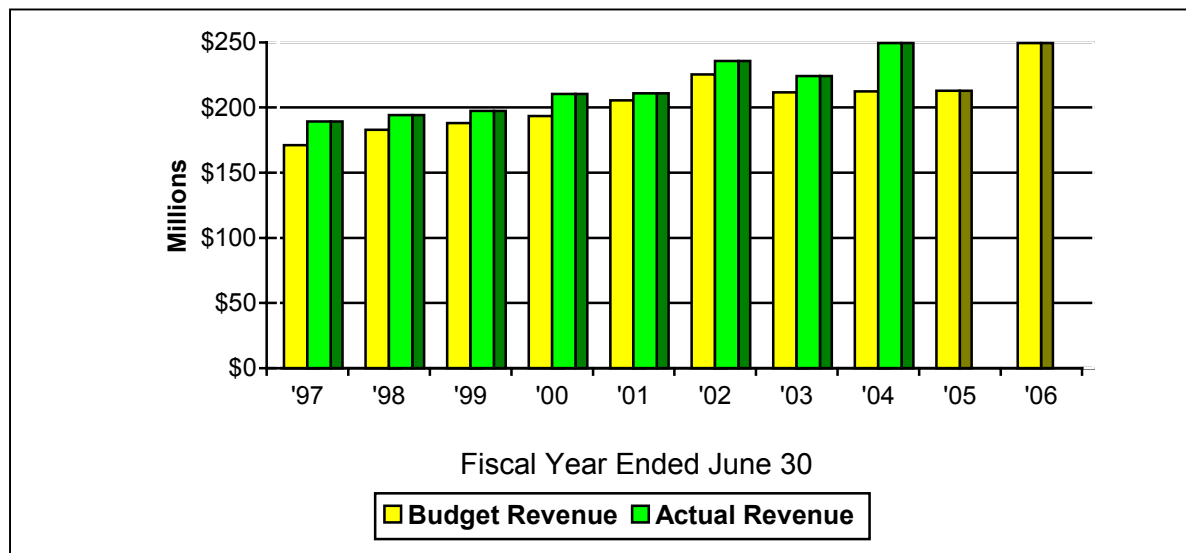
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
<u>Tax Levies (Millions):</u>			
General Operations	\$ 174.7	\$ 166.4	\$ 8.3
Garbage Tax	26.2	25.0	1.2
Debt Service	61.9	62.3	(0.4)
Total Tax Levy	\$ 262.8	\$ 253.7	\$ 9.1
Less: Estimated Delinquencies	13.2	40.6	(27.4)
Net Property Tax Collections	<u>\$ 249.6</u>	<u>\$ 213.1</u>	<u>\$ 36.5</u>
Delinquent Taxes (includes Interest and Penalty)	<u>\$ 14.4</u>	<u>\$ 79.6</u>	<u>\$ (65.2)</u>
Taxable Valuations (Millions)	<u>\$ 8,749.8</u>	<u>\$ 8,335.8</u>	<u>\$ 414.0</u>
<u>Tax Rates (Per Thousand):</u>			
General Operations	\$ 19.9620	\$ 19.9620	\$ 0.0000
Garbage Tax	2.9943	2.9943	0.0000
Debt Service	7.0753	7.4796	(0.4043)
Total Tax Rate	<u>\$ 30.0316</u>	<u>\$ 30.4359</u>	<u>\$ (0.4043)</u>

The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 1996-1997 through 2003-2004. The table also includes budgeted property tax for fiscal years 2004-2005 and 2005-2006.

Dollars In Millions							
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year		
			Amount	Percentage	Amount	Percentage	
1996-1997	\$ 171.2	\$ 189.3	\$ 18.1	10.6 %	\$ 15.5	8.9 %	
1997-1998	182.9	194.1	11.2	6.1	4.8	2.5	
1998-1999	188.1	197.3	9.2	4.9	3.2	1.6	
1999-2000	193.5	210.6	17.1	8.8	13.3	6.7	
2000-2001	205.7	211.1	5.4	2.6	0.5	0.2	
2001-2002	225.5	235.9	10.4	4.6	24.8	11.7	
2002-2003	211.8	224.3	12.5	5.9	(11.6 )	(4.9)	
2003-2004	212.4	249.4	37.0	17.4	25.1	11.2	
2004-2005 (A)	213.1	N/A	N/A	N/A	N/A	N/A	
2005-2006 (A)	249.6	N/A	N/A	N/A	N/A	N/A	

(A) The budgeted amount is the only figure available for fiscal year 2005-2006. The other amounts are designated N/A (Not Available) in the schedule.

The following chart compares budgeted property taxes for both the General and Debt Service Funds to actual collections of property taxes for fiscal years 1996-1997 through 2003-2004. The chart also includes budget amounts for fiscal years 2004-2005 and 2005-2006. Actual amounts are not available for these years.



### **Unpaid Property Taxes**

In fiscal year 2003-2004, for the first time, the City transferred some of its unpaid real property taxes to the Wayne County Treasurer's Office for collection. In June 2004, the Wayne County Treasurer's Office advanced a \$37.0 million payment to the City for the unpaid taxes. The City included (recorded) the advance in its current real property tax revenue for fiscal year 2003-2004. The City expects to receive a payment for unpaid current real property taxes from the Wayne County Treasurer's Office in fiscal year 2005-2006.

### **Property Tax Analysis**

The 2005-2006 Mayor's Proposed Budget includes \$249.6 million for net property tax revenue, which is \$36.5 million or 17.1% more than the amount budgeted for fiscal year 2004-2005. The major reason for the increase is the 2005-2006 budget assumes a 94.98% collection rate, versus an 84.0% rate included in the fiscal year 2004-2005 budget. In fiscal year 2003-2004, per the City's draft Comprehensive Annual Financial Report, the City collected 95.65% of its current property tax levy. This collection rate is the highest the City experienced in the ten fiscal years beginning with fiscal year 1994-1995 and ending with fiscal year 2003-2004. Prior to fiscal year 2003-2004, the City's collection rates ranged from 84.30% to 91.14%. The Budget Department increased the collection rate because the City experienced a rise in property tax collections in fiscal year 2003-2004, attributable to the advance from the Wayne County Treasurer's Office. The \$414.0 million increase in taxable valuation for fiscal year 2005-2006 also caused the estimated net property tax revenue to rise. The rise in the valuation reflects the increase in taxable values of properties located in the City of Detroit.

The increase in estimated net property tax revenue is slightly offset by a small reduction in the tax rate for debt service.

### **Delinquent Taxes**

The delinquent taxes include amounts for estimated delinquent real and personal property taxes to be collected during the fiscal year. Each fiscal year, beginning with fiscal year 2003-2004, the Wayne County Treasurer's Office advances a payment to the City for uncollected current real property taxes. Payments by the County are recorded on the City's books as current property taxes. Prior to fiscal year 2003-2004, the amounts the County is currently collecting in unpaid current real property taxes were classified as delinquent taxes. Eventually, the delinquent taxes will include only estimated amounts for unpaid taxes on personal properties to be collected by the City.

The \$79.6 million amount included in the fiscal year 2004-2005 Budget for delinquent taxes is optimistic. This amount includes approximately \$37.0 million that the City received from the Wayne County Treasurer's Office in June 2004. The \$37.0 million was recorded as current real property taxes in fiscal year 2003-2004. The remaining amount of the \$79.6 million estimate is \$42.6 million. The Finance Department's Property Tax Collection Report dated April 19, 2005, shows the City collected \$5.7 million in delinquent taxes as of February 28, 2005. Therefore, we conclude that it is optimistic that the City will collect the remaining \$36.9 million prior to June 30, 2005. Wayne County Treasurer's Office will continue to have primary responsibility for collecting delinquent taxes in 2005-2006. Therefore, we also believe the \$14.4 million estimate for delinquent (property) taxes for fiscal year 2005-2006 is optimistic.

**Conclusion**

The \$249.6 million net property tax estimate for fiscal year 2005-2006 is reasonable. The \$249.6 million is 94.98% of the gross property tax of \$262.8 million budgeted for fiscal year 2005-2006. Considering the City collected 95.65% of its current year's property tax in fiscal year 2003-2004, and expects to collect 94.98% of its current year's gross property tax in fiscal year 2005-2006, the budgeted net property tax of \$213.1 million for fiscal year 2004-2005 is conservatively estimated. The \$213.1 million is 84.0% of the gross property tax budgeted for fiscal year 2004-2005. Also, the \$213.1 million does not include the advance payment for unpaid current real property taxes that the City expects to receive from the Wayne County Treasurer's Office in fiscal year 2004-2005.

## UTILITY USERS TAX REVENUE

Utility Users Tax revenue contained in the Mayor's 2005-2006 Proposed Budget is \$1.0 million more than the amount budgeted in fiscal year 2004-2005. The Utility Users Tax revenue included in the 2005-2006 Mayor's Proposed Budget is compared to the 2004-2005 Budget in the following schedule:

In Millions			
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 56.0	\$ 55.0	\$ 1.0

The following schedule shows budgeted and actual Utility Users Tax revenue for each fiscal year from fiscal years 1996-1997 to 2003-2004. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2005, and budgeted Utility Users Tax revenue as shown in the 2005-2006 Mayor's Proposed Budget.

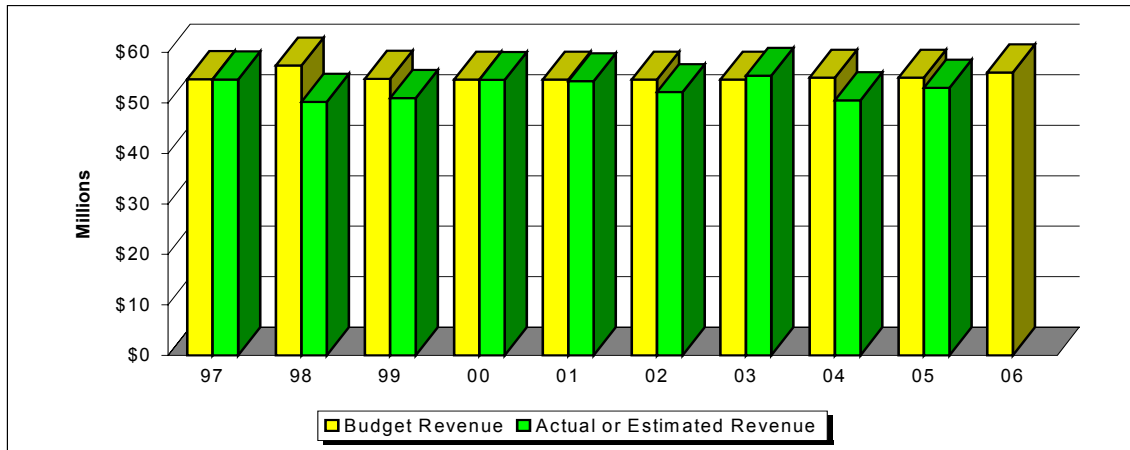
Dollars In Millions						
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1996-1997	\$ 54.7	\$ 54.6	\$ (0.1)	(0.2) %	\$ 0.7	0.1 %
1997-1998	57.4	50.1	(7.3)	(12.7)	(4.5)	(8.2)
1998-1999	54.7	50.9	(3.8)	(6.9)	0.8	1.6
1999-2000	54.6	54.5	(0.1)	(0.2)	3.6	7.1
2000-2001	54.6	54.3	(0.3)	(0.5)	(0.2)	(0.4)
2001-2002	54.6	52.1	(2.5)	(4.6)	(2.2)	(4.1)
2002-2003	54.6	55.3	0.7	1.3	3.2	6.1
2003-2004	55.2	50.5	(4.7)	(8.5)	(4.8)	(8.7)
2004-2005 (A)	55.0	53.0	(2.0)	(3.6)	2.5	5.0
2005-2006 (B)	56.0	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2004-2005 is a Budget Department estimate based on actual year-to-date Utility Users Tax revenue through March 2005, and an adjustment for the remainder of fiscal year 2004-2005 based on a rising rate environment and a lag in posting year-to-date payments.

(B) The budgeted amount is the only figure available for fiscal year 2005-2006. The other amounts are designated N/A (Not Available) in the schedule. The budgeted figure of \$56.0 million also assumes a rising rate environment.

The Utility Users Tax Act (initially approved as Public Act 198 of 1970), as amended, allows cities with a population greater than 750,000 to assess up to a 5.0% tax on users for intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5.0%, billed by the public utility or resale customer, with 1.0% of the actual amount collected retained by the public utility or resale customer as a collection fee.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 1996-1997 to 2003-2004, budgeted Utility Users Tax revenue to the revenue estimated for fiscal year 2004-2005, and the proposed Utility Users Tax budget for 2005-2006:



The City's actual collections, in four of the last five years for which data is available, have been within 5.0% of the budgeted Utility Users Tax revenue. However, in the fifth year or the 2003-2004 fiscal year, the actual collection was 8.5% below budget.

The Utility Users Tax Act, as amended, provides that the first \$45.0 million generated from this tax must be used to retain or hire police officers. The Act also requires that the amount of each fiscal year's Utility Users Tax revenue collected in excess of \$45.0 million be dedicated and used exclusively to hire or retain additional police officers, having the rank of sergeant or below, over the level employed on November 1, 1984 of 3,537. If the amounts collected are not used to hire and retain officers above the 3,537 limit, the City is required to lower the tax rate in decrements of ¼%.

The number of active police officers having the rank of sergeant or below was 3,497 on March 31, 2005, which is 40 below the number required by the Utility Users Tax Act. In addition, 85 students in three police academy classes, which are included in the number of uniformed police officers having the rank of sergeant or below, will be laid off effective April 30, 2005. A Budget Department representative indicated that the City does not intend to staff police officers at the 3,537 level in fiscal year 2005-2006.

Because the City will not use the excess fiscal year 2004-2005 Utility Users Tax revenue to hire and retain additional officers over the 3,537 level, the Utility Users Tax Act requires that the rate of tax imposed be lowered in decrements of ¼ of 1.0% for each full 5.0% collected in excess of \$45.0 million. The new tax rate is effective October 1. Our analysis shows that the City will be required to decrease the tax rate to 4.25%.

A Budget Department representative stated that the City plans to petition the State of Michigan to amend the number of police officers required by the Utility Users Tax Act. The limit of 3,537 is based on the City's 1984 population, which was significantly higher than the current population. Fewer police officers should be required based on the decrease in population.

**Conclusion**

If it is not the City's intent to use the excess tax revenue to hire and retain uniformed officers above the 3,537 level, the City should adjust its 2005-2006 budget projections for Utility Users Tax revenue downward to reflect a reduction in the rate by  $\frac{3}{4}$  of 1.0% effective October 1, 2005. This translates into a reduction of approximately \$6.3 million, based on the budgeted Utility Users Tax revenue of \$56.0 million in fiscal year 2005-2006.



## CASINO REVENUE

Total casino revenue contained in the Mayor's 2005-2006 Proposed Budget is \$36.4 million more than the amount budgeted for fiscal year 2004-2005. The following schedule compares total casino revenue included in the 2005-2006 Mayor's Proposed Budget to the 2004-2005 Budget:

	<u>In Millions</u>		
	<u>2005-2006 Mayor's Proposed Budget</u>	<u>2004-2005 Budget</u>	<u>Increase (Decrease)</u>
Wagering Tax	\$ 153.0	\$ 117.6	\$ 35.4
Municipal Service Fee	15.3	14.3	1.0
 Total Casino Revenue	 <u>\$ 168.3</u>	 <u>\$ 131.9</u>	 <u>\$ 36.4</u>

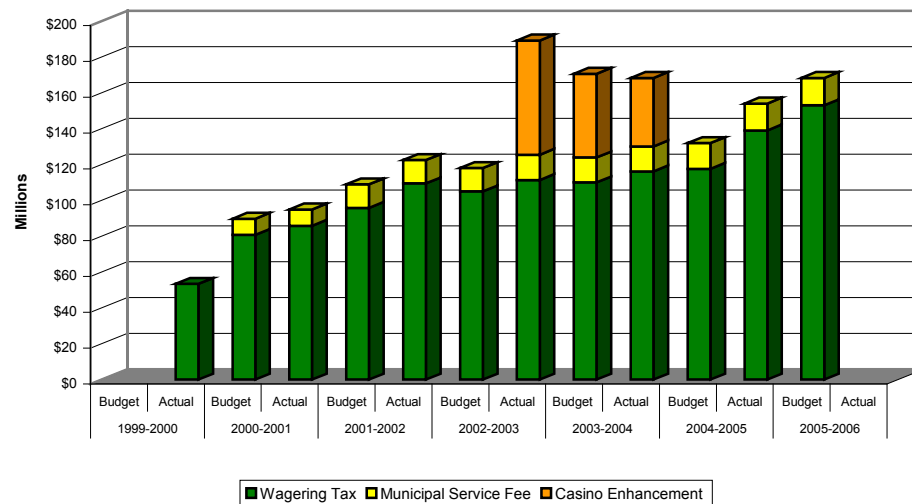
The following schedule shows budgeted and actual casino revenue for each fiscal year from 1999-2000 to 2003-2004. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2005, and projected revenue as shown in the 2005-2006 Mayor's Proposed Budget.

		<u>Dollars In Millions</u>					
<u>Fiscal Year</u>		<u>Budgeted Revenue</u>	<u>Actual Revenue</u>	<u>Actual Over/(Under) Budget</u>		<u>Increase/(Decrease) in Actual Revenue From Prior Year</u>	
				<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
1999-2000		\$ 0.0	\$ 53.4	\$ 53.4	N/A %	\$ 53.4	N/A %
2000-2001		89.7	94.9	5.2	5.8	41.5	77.7
2001-2002		108.9	122.5	13.6	12.5	27.6	29.1
2002-2003		118.0	189.2	71.2	60.3	66.7	54.5
2003-2004		170.7	168.3	(2.4)	(1.4)	(20.8)	(11.0)
2004-2005	(A)	131.9	154.0	22.1	16.8	(14.3)	(8.5)
2005-2006	(B)	168.3	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for 2004-2005 is a Budget Department estimate based on actual year-to-date casino revenue as of March 31, 2005 annualized through the end of the 2004-2005 fiscal year.

(B) The proposed budget amount is the only figure available for fiscal year 2005-2006.

The chart below compares the budgeted and actual or estimated casino revenue from fiscal year 1999-2000 through fiscal year 2005-2006<sup>1</sup>. The actual column for fiscal year 2004-2005 is the Budget Department's estimate of revenue that will be collected based on annualized projections.



## Wagering Tax

Pursuant to State of Michigan Public Act 69 of 1997, the City receives Wagering Tax and Municipal Service Fee revenue from the MGM Grand Detroit, MotorCity and Greektown Casinos. Prior to September 1, 2004, City Wagering Tax revenue represented 9.9% of Net Win<sup>2</sup>. On September 1, 2004, Public Act 306 of 2004 went into effect. This act amends Public Act 69, increasing the total Wagering Tax rate paid by the three Detroit casinos from 18% to 24%, with 2% of the additional assessment going to the City of Detroit. The City Wagering Tax revenue now represents 11.9% of Net Win.

For 2004-2005, the Budget Department estimates actual Wagering Tax revenue will be \$139.0 million, or \$21.4 million (18.2%) more than the \$117.6 million budget amount. The \$21.4 million budget to actual difference is primarily due to the 2% increase in the Wagering Tax revenue rate that was not factored into the fiscal year 2004-2005 budget. The Budget Department's estimated 2004-2005 Wagering Tax revenue of \$139.0 million is reasonable.

The 2005-2006 Mayor's Proposed Budget includes \$153.0 million in Casino Wagering Taxes, an increase of \$35.4 million (30.1%) from the 2004-2005 budgeted amount of \$117.6 million. Based on our reviews of actual and projected casino revenue data, the 2005-2006 budget of \$153.0 million for Casino Wagering Tax is optimistic. This budget includes Wagering Tax

<sup>1</sup> Casino Enhancement Revenue, a fee outlined in the development agreement totaling \$102 million to be paid over a two year period, has been received in full as follows: \$63.75 million received FY 2002-2003; \$38.25 million received FY 2003-2004.

<sup>2</sup> Net Win is the total gross casino receipts less winnings paid out to wagers.

revenue of \$147.5 million from the regularly assessed 11.9% of Net Win, and \$5.5 million of revenue attributable to a 1% increase in the Wagering Tax rate effective January 1, 2006.

The \$147.5 million portion of budgeted Wagering Tax revenue is reasonable. The budget assumes a 2% income growth rate and the 2% increase in the Wagering Tax rate that will be realized for the entire 2005-2006 fiscal year. The overall effect is a 6.1% increase in Wagering Tax revenue from fiscal year 2004-2005.

The \$5.5 million portion of budgeted Wagering Tax revenue, which is based on an additional 1% tax rate increase effective January 1, 2006, is not reasonable. The tax rate increase is not assessable when, "there exists any order or injunction that would deprive a developer of a material portion of the economic benefits anticipated from the casino complex."<sup>3</sup> There is currently a court-ordered injunction in place that prevents the construction of permanent casino sites. If the injunction is lifted before January 1, 2006, this budgeted revenue can be collected.

### **Municipal Service Fee**

The 2005-2006 Mayor's Proposed Budget includes \$15.3 million in Municipal Service Fee revenue, an increase of \$1.0 million (6.9%) from the 2004-2005 budgeted amount. The Municipal Service Fee is collected from casino operators to offset expenditures incurred by the City as a result of the casinos' requirements for public safety services. The amount of the Municipal Service Fee is the greater of 1.25% of Net Win or \$4 million per licensee. This fee is paid to the City on the anniversary date of each casino's opening. The 2004-2005 actual Municipal Service Fee is estimated to be \$15.0 million. The projected amount of \$15.3 million for fiscal year 2005-2006 assumes a 2% income growth rate from fiscal year 2004-2005. This budgeted revenue is reasonable.

The 2005-2006 Mayor's Proposed Budget also includes \$12.4 million of Municipal Service Fee appropriations. This amount appropriates 96 police officers and 44 fire and Emergency Medical Service (EMS) employees for the three casinos. Due to City-wide staffing cuts, including 61 positions in the Fire Department and 47 EMS workers, the number of budgeted positions for casino police, fire and EMS services has been decreased by 5 positions from the prior year budget, effecting a \$1.9 million overall reduction in Municipal Service Fee expenditures. In the 2005-2006 fiscal year, the Municipal Service Fee of \$15.3 million is expected to fully fund the expenditures for these services. Actual Municipal Service Fee expenditures as of March 31, 2005 were \$9.1 million, and we estimate that they will reach \$12.1 million by the end of fiscal year 2004-2005. Based on our review of staffing levels and actual expenditures, the 2005-2006 fiscal year projection of \$12.4 million for Municipal Service Fee use is reasonable.

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<sup>3</sup> From section 3.16 of the Casino Development agreement.

The following table compares total casino appropriations funded by the Municipal Service Fee and the public safety services provided in the 2005-2006 Mayor's Proposed Budget to the 2004-2005 budgeted appropriations and services:

	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Gaming:			
Police	\$ 9.0	\$ 10.6	\$ (1.6)
Fire (including EMS Casino)	3.4	3.7	(0.3)
Total Appropriations	\$ 12.4	\$ 14.3	\$ (1.9)
Less: Municipal Service Fee	15.3	14.3	1.0
Municipal Service Fee Surplus	\$ ( 2.9)	\$ -	\$ (2.9)

### Issues Related to Casino Revenue

The Michigan Gaming Board approved the sale of MotorCity Casino to Marian Ilitch on April 13, 2005. She will become 100% owner of the casino. This sale will not affect Detroit's casino revenue or casino development agreements.

The 2002 injunction preventing construction of permanent casinos remains in effect (Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Board, et al.).

The July 31, 2002 Casino Development agreements include terms that allow for the assessment of a 1% increase of the Wagering Tax rate beginning January 1, 2006, with an additional 1% to be assessed against each casino developer in the event that gross casino revenue reaches \$400 million in any calendar year. A continued injunction against the construction of permanent casinos will prevent the realization of this additional revenue in the 2005-2006 fiscal year. These new assessments are projected to produce additional Wagering Tax revenue of \$5.5 million in fiscal year 2005-2006, and \$25.8 million in fiscal year 2006-2007.

### Conclusion

The \$153 million Wagering Tax revenue budget is overstated by \$5.5 million and cannot be fully achieved if the court-ordered injunction stays in place past December 2005.

The 2005-2006 fiscal year budget of \$15.3 million for Municipal Service Fee revenue is reasonable. The budgeted Municipal Service Fee revenue use of \$12.4 million is reasonable as well. This represents a \$1.9 million reduction in spending. Due to City-wide staffing cuts, this reduction appears to be reasonable.

## **BONDS, CERTIFICATES AND NOTES PAYABLE**

Bond sales revenue contained in the Mayor's 2005-2006 Proposed Budget is \$836.7 million less than the amount budgeted for fiscal year 2004-2005. The Bond sales revenue included in the 2005-2006 Mayor's Proposed Budget is compared to the 2004-2005 Budget and the amount estimated to be issued in fiscal year 2004-2005 in the following schedule:

	In Millions				
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Budget Increase (Decrease)	OAG Estimate For 2004-2005	Variance Between Budget And Estimate
Water Revenue	\$ 0.0	\$ 400.0	\$ (400.0)	\$ 400.0	\$ 0.0
Bonds					
Sewerage Revenue	0.0	275.0	(275.0)	275.0	0.0
Bonds					
Pension Obligation	0.0	80.1	(80.1)	0.0	80.1
Bonds					
Risk Management	0.0	61.1	(61.1)	61.1	0.0
Bonds					
Fiscal Stabilization	0.0	0.0	0.0	61.0	(61.0)
Bonds					
Capital Projects	50.0	42.0	8.0	42.0	0.0
New Vehicle	0.0	28.5	(28.5)	28.5	0.0
Purchases					
800 MHz Bonds	0.0	0.0	0.0	87.5	(87.5)
Revenue Anticipation	0.0	0.0	0.0	55.0	(55.0)
Notes					
Pension Obligation	0.0	0.0	0.0	1,200.0	(1,200.0)
Certificates					
Payroll System (A)	0.0	0.0	0.0	0.0	0.0
Total	<u>\$ 50.0</u>	<u>\$ 886.7</u>	<u>\$ (836.7)</u>	<u>\$ 2,210.1</u>	<u>\$ (1,323.4)</u>

(A) The Payroll System is not budgeted to be financed by bonds, but is a lease/financing arrangement for \$25.0 million in fiscal year 2005-2006.

As shown in the table above, the following certificates/bonds/notes have been or are scheduled to be issued but are not included in the either the fiscal year 2004-2005 or the fiscal year 2005-2006 Budget:

Pension Obligation Certificates	\$ 1,200.0 million
Bonds for 800 MHz Radio System	87.5 million
Fiscal Stabilization Bonds	61.0 million
Revenue Anticipation Notes	55.0 million

## Bond Ratings as of April 1, 2005

Agency	General Obligation Unlimited Tax	General Obligation Unlimited Tax with Municipal Bond Insurance or Letter of Credit
Fitch Ratings Ltd.	A	AAA
Moody's Investor Service	Baa1	Aaa
Standard & Poor's	BBB+	(A)

(A) Information normally contained in the Executive Budget Summary regarding the City's bond ratings was not available as of April 20, 2005.

The bond ratings from Fitch Ratings Ltd. and Moody's Investor Service, which are investment grade, are unchanged from a year ago. However, Standard & Poor's lowered its rating on the General Obligation Unlimited Tax bonds to **BBB+** from **A-**, and lowered its rating on General Obligation Limited Tax bonds to **BBB** from **A-** on March 23, 2005.

The downgrades are based on the following factors:

- Continued deterioration of the City's financial position, including the projection of a second straight year with a negative general fund balance, and
- Projections of an ongoing structural imbalance that could take several years to cure, given that it is driven in large part by continued revenue shortfalls.

Last year, both Moody's Investor Service (Moody's) and Fitch Ratings Ltd. (Fitch) downgraded their rating outlook for City of Detroit general obligation debt. The Fitch rating outlook was downgraded to negative from stable because of weaker local and state tax revenue performance, increased pension costs and the Housing Commission write-offs. Moody's cited revenue shortfalls, draws on reserves, Detroit's above average debt ratios, and overall debt burden as reasons for lowering the rating outlook from positive to stable.

## Debt Service

The following table shows total debt service for the past eleven years:

Fiscal Year	Total Debt Service In Millions
1993-1994	\$ 90.9
1994-1995	133.4
1995-1996	92.0
1996-1997	123.5
1997-1998	116.2
1998-1999	116.7
1999-2000	126.2
2000-2001	127.0
2001-2002	124.6
2002-2003	132.2
2003-2004	138.9

Based on the bonds to be issued in fiscal year 2004-2005, as well as other anticipated financing, debt service is expected to increase in fiscal year 2005-2006.

## Debt Burden

The following schedule compares the assessed value for property in the City of Detroit, net debt, ratio of net debt to assessed value, and net debt per capita for the fiscal years 1964-1965 to 2003-2004:

Fiscal Year	In Millions		Ratio of Net Debt to Assessed Value	Net Debt Per Capita
	Assessed Value	Net Debt		
1964-1965	\$ 5,196.0	\$ 289.2	5.57%	\$ 177
1969-1970	5,306.3	306.1	5.77	203
1974-1975	5,792.1	320.7	5.54	240
1979-1980	5,227.4	367.1	7.02	306
1984-1985	5,230.7	273.0	5.22	253
1989-1990	5,579.8	872.4	15.63	849
1994-1995	5,887.3	1,171.7	19.90	1,181
1999-2000	6,856.7	1,021.0	14.89	1,073
2000-2001	7,639.8	938.1	12.28	986
2001-2002	7,976.0	962.1	12.06	1,011
2002-2003	7,844.2	909.6	11.60	956
2003-2004	8,335.8	1,104.0	13.24	1,211

The total assessed value of property in the City of Detroit remained stable from 1965 until the mid 1990s when it started to grow along with the City's economy. The data does not reflect the decline in property (i.e., housing stock) in the City in the 1970s, 1980s, and 1990s, which was offset by marginal increases in the taxable value of the remaining property primarily due to inflation. The net debt per capita represents the City's net debt divided by the estimated population. The net debt per capita and the ratio of net debt to assessed value was relatively stable until the late 1980s when the City issued bonds for the resource recovery facility (GDRRA). Commencing in 1996, the ratio of net debt to assessed value has declined due to increased property values and declining debt. The issuance of new debt in fiscal year 2004-2005 for self-insurance and fiscal stabilization bonds will further negatively impact this downward trend. Additional debt issues in the 1980s, 1990s, and 2000s, including self-insurance bonds, have further pushed up net debt per capita.

## Total Legal Debt Margin (General Purpose and Hospital)

The Home Rule City Act (Public Act 279 of 1909) limits the maximum amount of net indebtedness that may be incurred for public purposes. The limit is set at 10.0 % of the City's state equalized valuation (adjusted for certain assessed value equivalents) or 15.0% if that portion which exceeds 10.0% is used solely for construction or renovations of hospital facilities. However, allowances under various Public Acts provide for the exclusion of certain general obligation debt (e.g., Greater Detroit Resource Recovery bonds) from the limit. As of April 1, 2005, the general-purpose limit for the City was \$1.321 billion, which includes \$738.9 million of outstanding debt. Therefore, the City may issue additional bonds in the amount of \$582.1 million. The City may also issue an additional \$660.5 million of debt, if it is related to the construction or renovation of hospital facilities.

**Fiscal Stabilization Bonds**

Although the City issued \$61.0 million in Fiscal Stabilization Bonds in fiscal year 2004-2005, neither the Mayor's 2005-2006 Proposed Budget nor the 2004-2005 Budget includes any amount for them. Their issuance has impacted the City's credit rating and will increase the debt burden.

**Bonds Issued for Internal Service Fund**

The Mayor's 2005-2006 Proposed Budget does not include any amount for the Internal Service Fund, which is a decrease of \$28.5 million from the 2004-2005 Budget. This amount was used to finance new vehicle purchases.

**Bonds Issued for Risk Management Payments**

The Mayor's 2005-2006 Proposed Budget does not include any amount for Risk Management payments, which is a decrease of \$61.1 million from the 2004-2005 Budget. This amount was earmarked for the insurance premiums due to the Risk Management Fund for the Detroit Department of Transportation and the general fund agencies.

**Bonds Issued for Capital Projects**

The Mayor's 2005-2006 Proposed Budget includes the sale of voter approved general obligation bonds that will generate \$50.0 million, which is an increase of \$8.0 million from the 2004-2005 Budget. The bond proceeds will provide financing for capital improvement projects in fiscal year 2005-2006 including \$10.0 million for the Detroit Transportation Corporation; \$20.5 million for the Police Department – Prisoner Detention Center and Forensic Laboratory; and \$19.5 million for various other projects.

**Capital Improvement Bonds for the New 800 MHz Radio System and for Refunding**

On April 15, 2005, the City's Finance Director submitted an Amended and Restated Resolution to City Council to issue \$87.5 million of Capital Improvement Bonds to finance the General Fund share of the costs of an 800 MHz Radio Communication System (Project). The previous resolution approved by City Council on January 19, 2005, approved a \$43.0 million bond issue to cover a portion of the financing for the Project. Neither the \$43.0 million issue nor the \$87.5 million issue were included in the 2004-2005 budget. It is anticipated that these bonds will be issued in June 2005 although no other details of the issue, such as interest rate or term, are available as of April 20, 2005.

The Amended Resolution also seeks approval to issue \$13.5 million of Capital Improvement Bonds to refund currently outstanding Capital Improvement Bonds. No information was available as of April 20, 2005 concerning the specific bonds that will be refinanced or the terms of the issue.

**Revenue Anticipation Notes**

On April 15, 2005, the Finance Director also submitted a Resolution to issue a maximum of \$55.0 million of Revenue Anticipation Notes for the purpose of paying operating expenditures of the City in the 2004-2005 fiscal year in anticipation of the collection of state revenue sharing and subordinated distributable state aid for the next fiscal year. The notes are to be paid in full by June 30, 2006. These notes were not included in the 2004-2005 Budget, nor was any other information supplied to us concerning these notes as of April 20, 2005.

A similar "anticipation" note was issued in June 1994 for \$60.0 million, and was paid off within 12 months of issuance.



**Pension Obligation Certificates**

The Mayor's 2005-2006 Proposed Budget does not include any amount for the Pension Obligation Certificates (POCs), which is a decrease of \$80.1 million from the 2004-2005 Budget. This amount, related to the sale of the POCs, was to fund the City's required contributions for unfunded actuarial accrued liability (UAAL) to avoid laying off City employees and reducing City services. However, the City plans to fund the entire \$1.2 billion combined UAAL as of June 30, 2003, of both the General Retirement System and the Police and Fireman Retirement System. The use of POCs is expected to produce pension contribution savings to the City, estimated by the Chief Financial Officer to be \$24.0 million to \$26.0 million per year for the next 10 to 12 years. The City is planning to issue the certificates in May 2005.

The City is using an innovative method of financing which will combine the purpose of Pension Obligation Bonds with the methodology of Certificates of Participation. This will result in the liability remaining an off balance sheet item and not being included in the computation of the legal debt margin.

**Revenue Bonds**

The Mayor's 2005-2006 Proposed Budget does not include any amount for Revenue Bonds, which is a decrease of \$675.0 million from the 2004-2005 Budget.

**Payroll System Lease/Financing Arrangement**

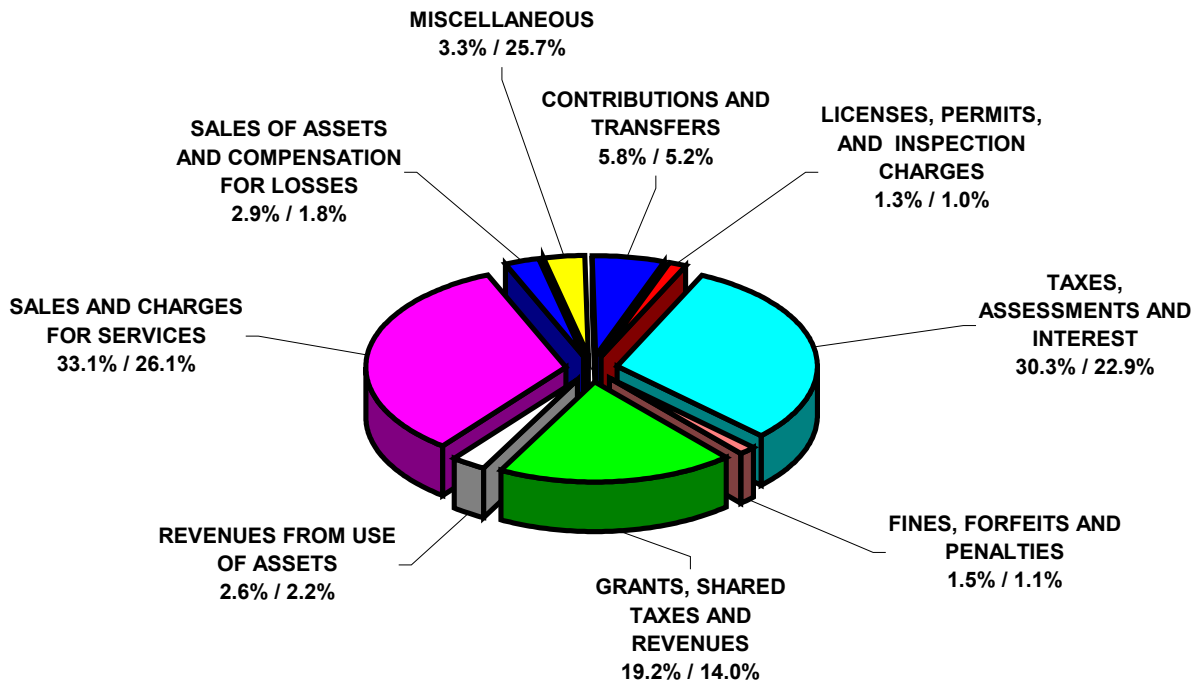
Also, included in the Mayor's 2005-2006 Proposed Budget is a \$25.0 million line item - Project Borrowings, budgeted in the Program Management Office. This is a lease/financing arrangement for a new City payroll system.

**Conclusion**

The amount of bond and bond related financing, which, either has or is planned to take place in fiscal year 2004-2005 is significantly higher than was budgeted. In fiscal year 2004-2005, bonds were again used to support current expenditures. The City's debt policy specifies that debt should only be issued for capital purposes.

The City annually issues bonds for capital improvements in the \$40.0 million to \$50.0 million range, so the \$50.0 million included in the Mayor's 2005-2006 Proposed Budget for Capital Improvements is reasonable. Although no documentation was available as of April 20, 2005 to support the assumption that no additional financing over the \$50.0 million for capital improvements will be needed, our analysis of projected revenues and expenditures suggests that the City will incur a deficit between \$200.0 million and \$300.0 million during the next fiscal year, unless draconian measures are undertaken to reduce anticipated expenditures.

**MAJOR REVENUES BY SOURCE**  
**2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**



REVENUE SOURCE	2005-2006 MAYOR'S BUDGET	2004-2005 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
LICENSES, PERMITS, AND INSPECTION CHARGES	\$ 37,690,735	\$ 37,817,685	\$ (126,950)	(0.34)%
TAXES, ASSESSMENTS AND INTEREST	853,594,710	857,603,180	(4,008,470)	(0.47)
FINES, FORFEITS AND PENALTIES	42,820,654	40,027,306	2,793,348	6.98
GRANTS, SHARED TAXES, AND REVENUES	540,256,377	522,332,694	17,923,683	3.43
REVENUES FROM USE OF ASSETS	72,792,130	84,310,919	(11,518,789)	(13.66)
SALES AND CHARGES FOR SERVICES	933,044,500	978,060,632	(45,016,132)	(4.60)
SALES OF ASSETS AND COMPENSATION FOR LOSSES	80,241,369	67,787,117	12,454,252	18.37
MISCELLANEOUS	92,177,020	960,384,735	(868,207,715) (A)	(90.40)
CONTRIBUTIONS AND TRANSFERS	163,776,983	193,900,807	(30,123,824)	(15.54)
<b>TOTAL</b>	<b>\$ 2,816,394,478</b>	<b>\$ 3,742,225,075</b>	<b>\$ (925,830,597)</b>	<b>(24.74)%</b>

(A) This substantial decrease in Miscellaneous Revenue is due largely, in part, to a \$400 million decrease in Water Department revenue and a \$332.5 million decrease in Sewerage Department Revenue from a decrease in revenue bond sales of \$400 million and \$275 million respectively.

**ESTIMATED REVENUES BY SOURCE**  
**2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**  
(In Millions)

	<u>2005-2006 Mayor's Budget</u>	<u>2004-2005 Budget</u>	<u>Increase (Decrease)</u>
LOCAL SOURCES			
Gross Property Tax (excludes Library)	\$ 262.8	\$ 253.7	\$ 9.1
Less: Estimated Delinquencies	<u>(13.2)</u>	<u>(40.6)</u>	<u>27.4</u>
Net Property Tax	\$ 249.6	\$ 213.1	\$ 36.5
Administrative Fees	7.5	7.3	0.2
Delinquent Taxes (includes Interest and Penalty)	14.4	79.6	(65.2)
Downtown Development Authority	1.4	1.4	-
Earnings on Investments	2.7	4.0	(1.3)
General Obligation Bonds	50.0	42.4	7.6
Internal Reserve Fund (Vehicles)	-	28.5	(28.5)
Licenses, Permits, and Inspection Charges	11.2	12.8	(1.6)
Limited/Pledged Debt Expense	13.6	13.6	-
Municipal Income Tax	272.6	311.0	(38.4)
Prior Years Municipal Income Tax	2.5	8.0	(5.5)
Municipal Service Fee (Casinos)	15.3	14.3	1.0
Wagering Tax (Casinos)	153.0	117.6	35.4
Ordinance Fines	18.4	18.4	-
Other Taxes	14.8	-	14.8
Parking Fines	13.1	12.3	0.8
Risk Management Fund (Workers' Compensation Pass Through)	18.5	18.8	(0.3)
Sale of Electricity and Steam	51.3	48.8	2.5
Sale of Assets	40.2	33.4	6.8
Risk Management Fund - Sale of Bonds	-	61.1	(61.1)
Pension Obligation Bonds	-	80.1	(80.1)
Sales and Charges for Services	103.1	112.0	(8.9)
Supplemental Fee (GDRRA)	33.1	41.9	(8.8)
Utility Users Excise Tax	56.0	55.0	1.0
Other Revenues	117.0	94.6	22.4
Enterprise Agencies			
Library Revenues (Excluding Federal and State Sources)	49.1	37.9	11.2
Revenue Bonds	-	675.0	(675.0)
Revenue from Operations	774.2	838.0	(63.8)
Subsidy from General Fund	<u>62.9</u>	<u>81.9</u>	<u>(19.0)</u>
SUBTOTAL - MAJOR LOCAL REVENUES	\$ 2,145.5	\$ 3,062.8	\$ (917.3)

**ESTIMATED REVENUES BY SOURCE**  
**2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**  
(In Millions)

	2005-2006 Mayor's Budget	2004-2005 Budget	Increase (Decrease)
FEDERAL SOURCES			
Community Development Block Grant	\$ 48.3	\$ 52.3	\$ (4.0)
Community Service Block Grant	7.7	7.2	0.5
Crime Bill (Police)	1.7	4.1	(2.4)
Department of Energy Weatherization Grant	4.1	3.8	0.3
Head Start Grant	54.9	52.0	2.9
Health Grants	39.8	40.4	(0.6)
Home Investment Grant	-	11.3	(11.3)
Work Force Investment Act Grant	26.0	22.6	3.4
Medicare Reimbursement-EMS	3.9	8.7	(4.8)
Michigan Occupational Skills Training Grant	33.1	20.9	12.2
Other Revenues	<u>20.0</u>	<u>9.7</u>	<u>10.3</u>
 SUBTOTAL - MAJOR FEDERAL REVENUES	 \$ 239.5	 \$ 233.0	 \$ 6.5
STATE OF MICHIGAN SOURCES			
Equity Package (Cultural)	\$ 0.6	\$ 3.5	\$ (2.9)
Equity Package (Police)	-	0.4	(0.4)
Gas and Weight Taxes	55.5	54.3	1.2
Library Community Programs	-	0.8	(0.8)
Mass Transportation Funds	45.6	58.1	(12.5)
Medicaid Reimbursements	8.9	2.6	6.3
Public Health Programs	20.9	19.7	1.2
State Revenue Sharing (General Fund)	283.5	286.1	(2.6)
State Revenue Sharing (Library)	1.6	1.6	-
Other Revenues	<u>14.9</u>	<u>19.3</u>	<u>(4.4)</u>
 SUBTOTAL - MAJOR STATE REVENUES	 \$ 431.5	 \$ 446.4	 \$ (14.9)
 TOTAL REVENUES - ALL SOURCES	 <u>\$ 2,816.5</u>	 <u>\$ 3,742.2</u>	 <u>\$ (925.7)</u>

**ESTIMATED REVENUES  
MAJOR INCREASES AND DECREASES  
(\$5 MILLION OR MORE)  
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

REVENUE CATEGORY	In Millions		
	2005-2006 Mayor's Budget	2004-2005 Budget	Increase (Decrease)
<u>LOCAL SOURCES:</u>			
Net Property Tax (excludes Library)	\$ 249.6	\$ 213.1	\$ 36.5
Wagering Tax (Casinos)	153.0	117.6	35.4
Other Revenues	117.0	94.6	22.4
Other Taxes	14.8	-	14.8
General Obligation Bonds	50.0	42.4	7.6
Sale of Assets	40.2	33.4	6.8
Prior Years Municipal Income Tax	2.5	8.0	(5.5)
Supplemental Fee (GDRRA)	33.1	41.9	(8.8)
Sales and Charges for Services	103.1	112.0	(8.9)
Internal Reserve Fund (Vehicles)	-	28.5	(28.5)
Municipal Income Tax	272.6	311.0	(38.4)
Risk Management Fund - Sale of Bonds	-	61.1	(61.1)
Delinquent Taxes (includes Interest and Penalties)	14.4	79.6	(65.2)
Pension Obligation Bonds	-	80.1	(80.1)
Enterprise Agencies:			
Library Revenues (Excluding Federal & State Sources)	\$ 49.1	\$ 37.9	\$ 11.2
Subsidy from General Fund	62.9	81.9	(19.0)
Revenue from Operations	774.2	838.0	(63.8)
Revenue Bonds	-	675.0	(675.0)
<u>FEDERAL SOURCES:</u>			
Michigan Occupational Skills Training Grant	\$ 33.1	\$ 20.9	\$ 12.2
Other Revenues	20.0	9.7	10.3
Home Investment Grant	-	11.3	(11.3)
<u>STATE OF MICHIGAN SOURCES:</u>			
Mass Transportation Funds	\$ 45.6	\$ 58.1	\$ (12.5)
Medicaid Reimbursements	8.9	2.6	6.3

**ESTIMATED REVENUES BY AGENCY**  
**2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

AGENCY	2005-2006 Mayor's Budget		2004-2005 Budget	
	Amount	Percent of Total	Amount	Percent of Total
<b>GENERAL CITY AGENCIES:</b>				
<b>EXECUTIVE AGENCIES:</b>				
12 Budget	\$ -	0.00%	\$ -	0.00%
14 Civic Center	10,043,809	0.36	10,142,661	0.27
15 Communications Department (A)	4,679,096	0.17	220,821	0.01
16 Consumer Affairs (B)	-	0.00	890,124	0.02
17 Department of Culture, Arts & Tourism (C)	-	0.00	1,841,499	0.05
19 Municipal and Environmental Services (D)	127,467,164	4.53	74,463,706	1.99
21 Detroit Workforce Development Department	59,119,997	2.10	43,584,185	1.16
22 Environmental Affairs (D)	-	0.00	3,442,453	0.09
23 Finance	7,688,059	0.27	8,232,610	0.22
24 Fire	17,927,064	0.64	14,771,720	0.40
25 Dept. of Health and Wellness Promotion (D)	72,268,943	2.57	74,249,878	1.98
26 Historical	2,317,181	0.08	2,064,134	0.06
28 Human Resources	12,311,588	0.44	14,803,856	0.40
29 Human Rights	-	0.00	61,200	0.00
30 Human Services	75,377,830	2.68	73,457,130	1.96
31 Information Technology Services	1,225,352	0.04	747,305	0.02
32 Law	3,114,357	0.11	3,114,357	0.08
33 Mayor's Office	-	0.00	-	0.00
36 Economic Development (E)	94,426,019	3.35	88,754,611	2.37
37 Police	102,180,844	3.63	90,665,014	2.42
38 Public Lighting (D)	-	0.00	64,958,300	1.74
39 Community Services Department (F)	10,029,786	0.35	9,786,927	0.26
40 Senior Citizens (F)	-	0.00	400,000	0.01
44 Zoological Institute	12,750,584	0.45	13,116,530	0.35
45 Department of Administrative Hearings	1,644,000	0.06	579,190	0.02
46 Detroit Office of Homeland Security	-	0.00	-	0.00
47 General Services Department (G)	2,590,256	0.09	-	0.00
<b>TOTAL EXECUTIVE AGENCIES</b>	<b>\$ 617,161,929</b>	<b>21.92%</b>	<b>\$ 594,348,211</b>	<b>15.88%</b>
<b>LEGISLATIVE AGENCIES:</b>				
50 Auditor General	\$ 173,000	0.01%	\$ 240,000	0.01%
51 Zoning	120,000	0.00	120,000	0.00
52 City Council	25,000	0.00	27,175	0.00
53 Ombudsman	-	0.00	-	0.00
70 City Clerk	-	0.00	-	0.00
71 Election Commission	33,000	0.00	197,555	0.01
<b>TOTAL LEGISLATIVE AGENCIES</b>	<b>\$ 351,000</b>	<b>0.01%</b>	<b>\$ 584,730</b>	<b>0.02%</b>

**ESTIMATED REVENUES BY AGENCY  
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

AGENCY	2005-2006 Mayor's Budget		2004-2005 Budget	
	Amount	Percent of Total	Amount	Percent of Total
<b>JUDICIAL AGENCY:</b>				
60 36th District Court	\$ 23,353,304	0.83%	\$ 21,752,339	0.58%
<b>OTHER AGENCIES:</b>				
35 Non-Departmental	\$ 1,131,673,927	40.18%	\$ 1,315,773,872	35.16%
<b>TOTAL GENERAL CITY AGENCIES</b>	<b>\$ 1,772,540,160</b>	<b>62.94%</b>	<b>\$ 1,932,459,152</b>	<b>51.64%</b>
18 Debt Service Fund	\$ 62,934,661	2.23%	\$ 70,599,475	1.89%
<b>ENTERPRISE AGENCIES:</b>				
(TAX SUPPORTED)				
10 Airport	\$ 1,087,327	0.04%	\$ 5,663,466	0.15%
13 Buildings and Safety Engineering	37,712,522	1.34	37,119,095	0.99
20 Transportation	149,362,883	5.30	171,169,345	4.57
72 Library	49,116,363	1.75	43,189,441	1.16
<b>TOTAL TAX SUPPORTED ENTERPRISE AGENCIES</b>	<b>\$ 237,279,095</b>	<b>8.43%</b>	<b>\$ 257,141,347</b>	<b>6.87%</b>
<b>TOTAL TAX SUPPORTED AGENCIES</b>	<b>\$ 2,072,753,916</b>	<b>73.60%</b>	<b>\$ 2,260,199,974</b>	<b>60.40%</b>
<b>ENTERPRISE AGENCIES:</b>				
(NONTAX SUPPORTED)				
34 Municipal Parking	\$ 47,420,410	1.68%	50,893,701	1.36
41 D.W.S.D. - Water Supply	303,272,036	10.77	700,721,800	18.72
42 D.W.S.D. - Sewerage Disposal	392,948,116	13.95	730,409,600	19.52
<b>TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES</b>	<b>\$ 743,640,562</b>	<b>26.40%</b>	<b>\$ 1,482,025,101</b>	<b>39.60%</b>
<b>GRAND TOTAL - ALL AGENCIES</b>	<b>\$ 2,816,394,478</b>	<b>100.00%</b>	<b>\$ 3,742,225,075</b>	<b>100.00%</b>

- (A) Agency 15 was the Communications and Creative Services Department. The agency consists of the Cable Commission and the Communications and Creative Services Department in the 2005-2006 Mayor's Proposed Budget.
- (B) The Mayor recommends that the functions of this agency be transferred to the Community Services Department, the Police Department, and the Building and Safety Engineering Department.
- (C) The Mayor recommends that the Department of Culture, Arts & Tourism be dissolved at the end of fiscal year 2004-2005, and that the responsibility for the Detroit Film Office be transferred to the Communications Department and Eastern Market operations be transferred to the Community Services Department.
- (D) Agency 19 was the Department of Public Works in fiscal year 2004-2005. The agency consists of the Department of Public Works, Environmental Affairs, Public Lighting, and some functions of the Health Department in the 2005-2006 Mayor's Proposed Budget.
- (E) Agency 36 was the Planning and Development Department. The agency consists of the Planning and Development Department, Office of Neighborhood Commercial Revitalization, and the Department of Workforce Development in the 2005-2006 Mayor's Proposed Budget.
- (F) Agency 39 was the Recreation Department. The agency consists of the Recreation Department, the Senior Citizens Department and the Human Services Department's at-risk programming in the 2005-2006 Mayor's Proposed Budget.
- (G) The Mayor recommends this newly created department provide asset management services for the City, such as: maintaining City-owned facilities, grounds, and parks; buying and leasing vehicles for City departments; and procuring and managing office space for the City.